

**A SEARCH FOR NEW BALANCES
IN AGRICULTURAL POLICIES:
THE CASE OF TURKEY**



Executive Summary



TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION

A SEARCH FOR NEW AGRICULTURAL POLICIES: THE CASE OF TURKEY

(Executive Summary)

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Meşrutiyet Caddesi, No.74 80050 Tepebaşı/İstanbul
Phones: (0212) 249 54 48 - 249 07 23 • Fax: (0212) 249 13 50

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Lebib Yalkın Yayınları ve Basım İşleri A.Ş.

FOREWORD

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TÜSİAD, in accordance with its mission and in the context of its activities, initiates public debate by communicating its position supported by scientific research on current issues.

The following report entitled "A Search for New Agricultural Policies: The Case of Turkey" is the executive summary of the original study prepared by Professors Haluk Kasnakoğlu, A. Halis Akder and Erol Çakmak, in 1999, in Turkish.

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Prof. Haluk Kasnakoğlu

Haluk Kasnakoğlu was born in Ankara in 1947. Upon graduating from İzmir Bornova Anatolian High School, he completed his higher education at the Department of Economics and Statistics, Faculty of Administrative Sciences, Middle East Technical University. He received his master degree in Economics at the University of Wisconsin and obtained a PhD degree in Economics. He worked at the University of Wisconsin and California as a fellow lecturer and researcher.

Dr. Kasnakoğlu has worked as Assistant Chairman at the Department of Economics and as Chairman at the Department of Economics, Assistant Dean at the Faculty of Administrative Sciences, Director at the Graduate School of Social Sciences and member of Board of Directors at Middle East Technical University. Dr. Kasnakoğlu was Advisor to the President at the State Institute of Statistics, Vice President at the State Institute of Statistics and Director of Statistical Econometric Analysis Department, State Institute of Statistics.

Currently, Dr. Kasnakoğlu gives lectures on Linear Programming, Operational Researches, Research Methods, Microeconomics, Applied Economics. He presented and wrote papers and articles on agricultural policies, wages, food security and optimization in agriculture.

Prof. A. Halis Akder

A. Halis Akder was born in İstanbul in 1946. He completed his secondary education in Deutsche Oberrealschule and graduated from Department of Economics and Statistics, Middle East Technical University. He obtained a PhD degree at Johann Wolfgang Goethe Universitat.

Since 1980, Dr. Akder gives lectures at the Department of Economics, Middle East Technical University. He worked as Assistant to the Chairman of the Department of Economics, Vice Dean of the Faculty of Administrative Sciences, Middle East Technical University and is still a member of board of ODTÜ-AFP and vice chairman of ODTÜ-EBİ.

Dr. Akder gives lectures on Macroeconomics, Agricultural Economics, Economic Analysis and Industrial Economics. He has specialized on the subjects such as EU-Common Agricultural Policy, Agricultural Structure, and Human Development. He has presented papers in conferences and published articles and papers in national and international magazines.

Prof. Erol akmak

Born in 1955 in Safranbolu, Erol H. akmak completed his secondary school education at the Galatasaray Lycee and his higher education at the Department of Economics, Middle East Technical University (METU). Then he had his master degree in the Department of Economics, METU. He obtained a PhD in Applied Economics at Food Research Institute, Stanford University.

From 1987 to 1997, he worked as an Associate Professor in the Department of Economics, METU. Since 1997, Dr. akmak teaches Microeconomics, Research Methods, Statistics, Mathematical Economics and Industrial Economics in the Department of Economics, METU. Dr. akmak gives lectures as a fellow lecturer on Agricultural Sector Models in France at CIHEAM/IAMM (Mediterranean Countries Agriculture Research Institute).

Prof. akmak has specialized on agricultural policies, water policy and management, international agriculture agreements, efficiency, agricultural sector models. He has many papers presented in conferences and articles published in national and international magazines.

SUMMARY

Search for a new set of agricultural policies is not only on Turkey's agenda. It is anticipated that new round of negotiations for WTO-Agreement on Agriculture will be a challenging process and the issue will remain as a major item in the agenda of multilateral trade negotiations in the coming years. Turkey's candidacy for membership to EU has also added a new dimension for the changes in agricultural policies. Even without the WTO Agreement and candidacy to EU, Turkey would have been forced to change the ongoing policies anyhow. The implemented agricultural policies were no longer effective and impossible to sustain. It has to be admitted that, the international dimension has gained more weight in the determination of national agricultural policies.

1/11: WHY THE AGRICULTURAL POLICIES SHOULD CHANGE?

- *Transfers to producers are largely realized through the interventions on input and output prices;*
- *Income effect on the target population is rather limited: the more the production, the greater the transfer is;*
- *The budget requirements of the policies are met from the budget. The cost of transfers increases as the years pass by;*
- *The policies in the world shifts towards "productive policies": WTO Agreement on Agriculture and the changes in the policies of major traders point out that the weight of more redistributive and more productive policies will certainly increase;*
- *Policies implemented in Turkey has actually no productivity impact.*

Among the existing problems related to Turkey's agricultural policies, the performance of the sector compared to what could be achieved with existing resources ranks first. Lack of major and consistent policy objectives, the announcement of several vague objectives -almost impossible to achieve- can be counted among the other major problems. The tools used in Turkey's agricultural policies are no longer effective. The skewness in the distribution of costs and benefits of the agricultural support rather than the level of support should be considered as a major policy problem. Turkey is losing its comparative advantage in agricultural products. Environmental issues have not yet been taken into account in the formulation of the agricultural policies. Policy making process in agriculture is not functioning properly.

In fact, major reasons lying behind the agricultural policy problems are: the short-sighted perspectives of the existing policies and imperfections in the factor markets. It is hard to claim that credit and labor markets are fully functioning. Similar market imperfections can be partially observed in the output markets as well. Some of the problems in the sector stem from the policies implemented by the developed countries.

It is necessary that major factors in the determination and implementation of feasible policies are to be classified and the assumptions are clearly set in order to maintain constructive policy discussions. The major difficulty in the evaluation of the agricultural policies in Turkey arises from the identification of the objectives. Rural and agricultural policies; policy objectives, tools and constraints are all confused.

2/11: AGRICULTURAL POLICIES STEP BY STEP:
Confusion of problems and outcomes in Agriculture

Outcomes conceived as problems:

- ***The share of agriculture in GDP is decreasing, the share of agricultural population in total is still high;***
- ***Small and scattered agricultural enterprises;***
- ***Support levels are high;***
- ***Increase in imports, decrease in exports.***

Real problems:

- ***The sector is not able to achieve the performance level of production that can be obtained with the existing resources;***
- ***Policy objectives and tools are too many and conflicting with each other;***
- ***Supports are largely financed by consumers instead of budget;***
- ***Process of policy making is malfunctioning;***
- ***Countries with a large share in the world agricultural trade are affecting the world prices through their support policies and exporting problems to others;***
- ***Competitive power of the sector is diminishing.***

3/11: AGRICULTURAL POLICIES STEP BY STEP:

While seeking for solution...

- *The linkages of agriculture with other sectors and the world should not be overlooked;*
- *Agricultural policies can not solve all the problems faced by agricultural and rural communities;*
- *The producers benefiting from support are also the consumers of agricultural and non-agricultural commodities;*
- *The agricultural policies are never cost free;*
- *Private and social returns should be positive;*

The support expenditures to agriculture have produced some benefits:

- *Food security is achieved;*
- *Turkey is still a net exporter;*
- *Contribution to employment is still 40 percent;*
- *Demand contribution to non-agriculture is significant;*
- *Easing the impact of the economic crises can not be disregarded.*

The impacts of agricultural policies on producers, consumers and taxpayers can be measured by the Producer Support Equivalent (PSE) and Consumer Support Equivalent (CSE). PSE is an indicator of the total amount of monetary support provided to producers in a year. This type of transfer covers not only the transfers from consumers through the increase in domestic prices, but also budgetary transfers financed by taxpayers. Percentage PSE is defined as the share of transfer in every 100 TL of producers' earnings. Percent CSE, on the other hand, is the share of transfer in every 100 TL paid by consumers. Positive values indicate subsidies, negative values indicate the tax ratios.

Total producers' subsidy in 1998 amounted to USD 11.3 billion. The burden of these policies imposed on the consumers through their impact on the agricultural commodity prices has been estimated as USD 9.1 billion. In other words, the subsidies for producers have been financed by taxing consumers via higher agricultural prices. The consumers have contributed 70 percent of subsidies provided to producers through market price support, the rest 30 percent by the taxpayers. Whereas in the OECD countries, the distribution of burden of support

**4/11 AGRICULTURAL POLICIES
STEP BY STEP:**

Analytical framework should be determined

- ***Objectives-tools-constraints should be determined;***
- ***Every tool has unwanted yet unavoidable impact;***
- ***The confusion of objective and tool is continuing in Turkey;***
- ***The constraints on the implementation of policies are not taken into account.***

is the opposite of Turkey. The share of the transfers from taxpayers to producers has increased throughout the years, has been higher than consumers' transfer in the recent years.

The ratio of producers subsidies (percentage PSE) to the value of agricultural production has increased from 17 percent during 1979-81 to 42 percent in 1998 in Turkey. In OECD countries, on the other hand, percent PSE diminished from 40 percent in the end of 70s to 38 percent in 1998.

PSE per full-time farmer equivalent (approximately 3 million), was about USD 1000. This is about 5 percent of the OECD average (USD 20,000). PSE per rural household is less than USD 2,500 and per person PSE is approximately USD 500. Therefore, agricultural support is equal to 25 percent of per capita income in agriculture. As for full time farmer equivalent, this amount reaches, on the average, to USD 1,000 or 50 percent of the farm income. In the last 20 years, PSE per unit of cultivated land has increased about 6 times from \$28/ha in 1979-81 to \$196/ha in 1998. This is slightly higher than half of the OECD average (USD 360/ha).

**5/11 AGRICULTURAL POLICIES STEP BY STEP:
Cost, Source and Burden of support**

- ***The last five year average of the transfers from the budget to producers is approximately USD 3.5 billion;***
- ***Attention please: Since the budgetary transfer items are largely financed through the public banks and not paid back by the government, the financial costs are increasing as the years pass by;***
- ***70 percent of the producers' subsidies are met by the consumers paying higher prices because of tariffs and support purchases;***
- ***Although part of the cost of support is reflected to producers who are also consumers, but the heaviest burden falls on the shoulders of low-income groups. Lowest income group spares more than 50 percent of their incomes to agricultural products.***

With a significant share of agricultural population, the share of total transfers in GDP is about 4-5 percent in Turkey, as opposed to 1.5 percent in the OECD countries with a significantly lower share of agricultural population. Hence, transfers to agriculture put a higher burden on the non-agricultural sectors.

The distribution of agricultural support among various crops does not exert a balanced development and it affects the relative incomes of producers. The market price support component of agricultural support policies does not significantly affect the regional distribution of income. Yet, the input costs reduction component contributes to the widening of relative and absolute income differentials.

Lower income groups transfer larger part of their budget to agriculture compared with the higher income groups. Therefore, the negative impact of agricultural support on lower income groups is relatively larger.

6/11 AGRICULTURAL POLICIES STEP BY STEP:

Beneficiaries of support

- ***Small number of producers benefit more from output price support as they own a larger proportion of cultivated land with better quality (i.e. irrigated), and more from input price support as they use more of subsidized inputs, such as water, chemicals, credit and fuel;***
- ***The other group wishing to benefit: politicians;***
- ***Rapid increases in support levels always coincide with the elections;***
- ***It is suspicious that it serves for the politicians' expectations: Except for one election, the governments have always changed despite the significant increases in the level of support prior to the elections.***

The proportion of agricultural support to producers in Turkey has been lower than OECD average during the last 20 years. Yet this difference had diminished in the recent years, and disappeared in 1998. Percent PSE fluctuated between -3 percent and 41 percent in Turkey, whereas it was more stable in the OECD countries, and fluctuated between 27 percent and 51 percent.

The trend in agricultural support ratios in Turkey and OECD countries indicated similarities only during the transition period towards the establishment of the democracy in 1980-1986. We can conclude that agricultural support in Turkey

follows the world trend when there is no political pressures. During the periods of heavy political agenda or internal politics, on the other hand, agricultural support reflects the political agenda. For example, the cycle of agricultural support is such that, in the election years, the agricultural support reaches relatively higher levels, in the aftermath of elections, it diminishes. Since 1994, due to the increased frequency in elections, high level of support has been maintained.

As for the changes of agricultural support policies, the new round of WTO negotiations could provide a good opportunity to establish a necessary and productive platform for discussions and also acceleration of change. Important point that should be taken into account in the negotiations is that the benefits from possible multilateral liberalization in agricultural trade will be larger than that of unilateral liberalization. Multilateral liberalization would improve the market access, and would lead to an increase in the general level of world agricultural prices due to the decline in the subsidies of large traders. The crops with higher prices are the ones with heavy government intervention in Turkey. Therefore

7/11 AGRICULTURAL POLICIES STEP BY STEP:

Internal and external constraints

Internal constraints:

- ***There are market failures in the input and output markets;***
- ***Input: Land, water, and credits markets are not functioning properly;***
- ***Output: Transaction costs are high for some commodities and in some regions;***
- ***The cost of public agencies which are responsible to reduce this cost is high;***
- ***Producers are not organized;***
- ***Commodity exchanges which will help to improve the flow of information on commodity prices and quality are weak;***
- ***Budgetary source which used to be a constraint have been included in the objectives due to the circumstances prevailing in Turkey;***

External constraints:

- ***World prices are not determined by free trade;***
- ***Quantity restrictions have been disguised;***
- ***WTO-Agreement on Agriculture and EU-CAP commitments and changes added new constraints.***

anticipated increases in the world prices would at least diminish the burden of support on the budget. Taking into account that agricultural support policies in Turkey have been under great pressure due to the macro-economic problems, originating from the budget deficits, Turkey's initial position should favor liberalization; yet the process of transition towards declining intervention to prices should be carefully crafted.

Closer contact between EU and Turkey in the field of agriculture started with the Ankara Agreement in 1963. It still continues with concessional trade agreements. Just like for other commodities, EU is the largest market for the agricultural products of Turkey. In the future, the competitiveness of Turkey and EU will be determined by their adjustment efforts to WTO's Agreement on Agriculture. Within the framework of Turkey's search for new agricultural policy, the alternatives associated with EU's CAP can be listed as follows: (1) to adjust WTO's Agreement on Agriculture, yet not to make any adjustments for CAP. (2) to adjust both to Agreement on Agriculture and to CAP. (3) full membership to EU. (4) to accomplish Customs Union without being full member to EU. These alternatives do not exclude each other. A realistic discussion can be based on how to rank these alternatives.

**8/11 AGRICULTURAL POLICIES
STEP BY STEP:**

International developments

- ***WTO-Agreement on Agriculture constrains all kinds price and trade distorting policies;***
- ***The new round of negotiations which is expected to start in 2000 will be challenging, yet the agricultural trade will become more liberalized;***
- ***The changes in the policies of major traders are in this direction;***
- ***The changes in the EU policies are also geared towards increased sensitivity to the world prices.***

Is full compliance with the Customs Union, a realistic alternative for Turkey? An answer to this question can be hindered in another question. Is it possible to accomplish full Customs Union without fully implementing CAP? An answer to the last question can be sought for in the light of the past experiences. In the enlargements of EU realized so far, adjustment to CAP had not been undertaken before the realization of full membership. Countries comparable to Turkey such as Spain and Greece required substantial amount of time for the adjustment before the full membership.

Agricultural policies can be divided into two groups. The first group is called as "productive policies" since it aims at improvement of efficiency in

the use of resources both in production and consumption. Areas such as, research, reduction of transaction costs, infrastructural services, quality and standard control, crop insurance, and extension, all geared towards increasing the economic growth, are included in this group. Second group which can be named as "distributional policies", on the other hand, consists of policies such as price supports, deficiency payments, interventions at the border, input subsidies, subsidized credits, by which wealth and income are transferred to agricultural producers from the rest of the economy. Economic and political returns of the policies embodied within the first group, are paid back throughout the time and especially during the initial periods, it requires to transform the institutional structure and use of public resources for organization. On the other hand, political returns of the policies that only include transfers, are recouped in the short run; yet according to the preferred tool, the burden of the transfers on consumers and budget could reach to unaffordable levels. With an historical perspective, governments in Turkey tend to choose the second group in order to strengthen their political power.

9/11 AGRICULTURAL POLICIES

STEP BY STEP:

The available policy tools

- ***Declining tariffs;***
- ***Direct income support (the target population and duration should be specified);***
- ***All kinds of infrastructural investments;***
- ***Well formulated rural and regional development programs;***
- ***R&D, extension, and training.***

Changes required in the agricultural policies of Turkey originate not from the size of transfers but from the type of preferred policies. Discussions on agricultural policies should not be based on the size of support, but instead should be the balance between the "productive policies" and "distributional policies" in the set of implemented policies taking into consideration international and domestic factors. The long term objective of agricultural policies obviously need to be the improvement of productivity in the sector. Otherwise, given the ongoing developments, the

sector will face a challenging international competition. Major policies to accomplish the change are technological development, improvement of productive resources, and reduction in the price interventions.

The major obstacle in getting rid of price intervention policies the absence of markets or the existence of imperfections in some input and output markets. This situation hinders the structural transformation. In addition, it constrains the set of policy tools or decreases the chances for success of the new policies. Regulation of the markets and correction of the externalities, and the provision of public goods are the major duties of the state.

**10/11 ALTERNATIVE POLICY RECOMMENDATION:
2000-2010 General Principles**

- ***None of the stakeholders (producers, consumers, taxpayers, and government) should be worse off than the ongoing situation: This prevents shock treatment, and also reduces the risk of returning back to the old policies;***
- ***Shift the burden from consumers to taxpayers in the long run. Keep the contribution of taxpayers stable at the average of last five years (approximately USD 3.5 billion). Put the necessary expenditures as an item in the budget, and use the support to improve the productivity.***

This study concludes with a set of alternative policies for agriculture policy. The new policy proposal has been carefully prepared taking into account the international and domestic developments, and new constraints for the implementation of the policies. The reliability and determination of the decision makers, the ability during the implementation of policies are issues open for debate. The major principle used in the design of the policy is that none of the actors (producers, taxpayers, consumers, and government), should be in a position worse than the ongoing situation.

The amount of tax revenues used for agricultural support in Turkey is a little over 1 percent of GDP. It is recommended that this ratio which is as twice as OECD average is decreased to the OECD level in ten years. Even if Turkey decreased this support ratio, assuming that OECD averages will remain stable and average annual growth rate would be 5 percent in Turkey, the level of absolute budget support will likely to continue to be the same despite this proportional decline.

During the initial years, since the price support through tariffs will continue, budgetary support will register a slight fall and then it would stabilize to the expenditures of the base period (1996-1998 averages). This amount should be absolutely stated as an item in the budget.

Change in the policy balances would alter the distribution of transfers to agriculture. The consumers' contribution reaching to 70 percent in total transfers, due to market price interventions, will diminish to 30 percent. As a result of increasing weight of productive policies, an opposite development is naturally foreseen in the contribution ratio of taxpayers to agricultural support.

**11/11 ALTERNATIVE POLICY RECOMMENDATION:
2000-2010 Short and Long Term**

Short term (1-3 year) policies:

- *Determine the domestic prices of net-imported products using tariffs (respect bound tariffs to WTO) rather than of support purchases because of the budgetary constraints;*
- *Implement already existing mechanism of "supply control" for the other problematic crops (tobacco, tea, and hazelnut);*
- *Identify the producers whose incomes will likely to diminish and apply direct income compensation for a certain period;*

Long term (1-10 years) policies:

- *First of all, complete the input and output markets to be able to implement long term policies;*
- *Shift the support from price interventions to productive policies such as infrastructural investments, R&D, and producers' organizations;*
- *Develop regional development projects;*
- *Tie the selection of irrigation projects to serious feasibility studies which include economic, social, and environmental evaluations; Require the contribution of beneficiaries proportional to the expected benefit;*
- *Complete this shift towards the midterm period;*
- *Since the world prices are affected from the support policies of major traders, if necessary, use tariffs to isolate the adverse effects of distorted world prices.*

Domestic and international developments force the Turkish agricultural policies to change towards the recommended direction anyhow. To determine the level of support is no longer a major issue. Either the support to agriculture will disappear or the support system will be changed in a conscious and planned way. The successful implementation of new policies will make support system more equitable, will improve productivity and the competitiveness of the sector.

